

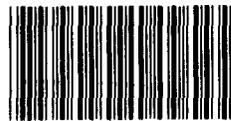
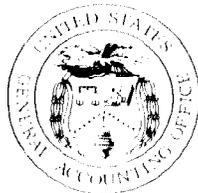
GAO

Report to the Chairman, Committee on
Veterans' Affairs, U.S. Senate

July 1991

VETERANS' BENEFITS

VA Needs to Verify Medical Expenses Claimed by Pension Beneficiaries



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United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-244729

July 29, 1991

The Honorable Alan Cranston
Chairman, Committee on Veterans' Affairs
United States Senate

Dear Mr. Chairman:

This report responds to your May 24, 1990, request that we determine the amount of unreimbursed medical expenses that beneficiaries report to the Department of Veterans Affairs (VA) for use in computing VA pension benefits and examine VA procedures for verifying these expenses. You were concerned that some pension beneficiaries claim substantial amounts of medical expenses, not routinely verified by VA, as offsets to countable income that otherwise would reduce their pensions.

Under title 38 of the U.S. Code, VA provides monthly benefits to needy wartime veterans who have become permanently and totally disabled by nonservice connected impairments through its "Improved Law" pension (P.L. 95-588) program.¹ Survivors of these veterans may also qualify for pensions based solely on financial need. In fiscal year 1990, VA paid about \$3.4 billion to about 694,000 beneficiaries.

Veterans or their survivors can apply for pension benefits at any of VA's 58 regional offices. Once eligible, VA requires the pension beneficiaries to report their income and expenses annually in an eligibility verification report. VA reduces pensions by the beneficiaries' income on a dollar-for-dollar basis.

Beneficiaries are allowed to claim two types of out-of-pocket medical expenses to offset countable income that otherwise would reduce pension benefits. Recurring expenses (e.g., nursing home costs) are expected to occur each year and are entered into VA's automated payment system. Nonrecurring expenses (e.g., doctor visits) are considered "unexpected" and are not entered into the automated system. VA will issue a one-time retroactive check for the amount that these expenses result in increased pension benefits.

¹This program became effective January 1, 1979. VA provides additional pension benefits under two older programs that collectively represent about 14 percent of its pension cost and are not significantly affected by medical expenses. This report addresses only VA's Improved Law pension program.

Results in Brief

VA pension beneficiaries claimed over \$1.6 billion in medical expenses for the year ended January 26, 1990.² These self-reported expenses resulted in income offsets of \$762 million, which, in turn, caused VA to pay out an equal amount in increased pension benefits. Most of these expenses were claimed by beneficiaries in nursing homes.

VA does not know whether the claimed medical expenses are valid because it does not systematically verify or request "proof of payment" for these expenses. Because of the significant dollars involved, VA should establish procedures to validate these expenses. The need for such procedures is reinforced by the fact that the Internal Revenue Service (IRS) found similar medical deductions were overstated by about 23 percent on individual tax returns.

Scope and Methodology

We interviewed officials at VA's central office and its regional offices in Baltimore, Boston, and Louisville to determine the policies and procedures that affect medical expenses claimed by pension beneficiaries and the verification of such expenses. We also reviewed relevant regulations and instructions to pension beneficiaries and regional staff.

To determine the type of recurring medical expenses claimed by pension beneficiaries, we reviewed a nationwide sample of cases from VA's automated payment file as of January 26, 1990. VA had no data on the magnitude of nonrecurring medical expenses, so we analyzed a nationwide sample of pension cases to develop this information. For recurring and nonrecurring expenses, we determined whether they resulted in offsets to income that otherwise would have decreased pension benefits.³

We did not ask pension beneficiaries to document their claimed medical expenses. Rather, to provide a measure of the magnitude that unverified medical deductions could be expected to be overstated, we obtained data from IRS that identified accuracy rates associated with comparable medical deductions claimed on individual tax returns.

We made our review between April 1990 and February 1991 in accordance with generally accepted government auditing standards.

²This was based on the most current data available as of April 1990, when we started our review.

³The error rates for estimates cited in this report were computed at a 95-percent confidence level. Further details on our sampling methodology and the limitations of our results are included in appendixes I and II.

VA Does Not Know Whether Millions in Claimed Medical Expenses Are Valid

Of the \$1.6 billion in medical expenses claimed by VA pension beneficiaries, \$1.25 billion was for recurring expenses and \$350 million was for nonrecurring expenses. We estimated that of the recurring expenses, about \$1.2 billion involved beneficiaries who were using their pensions to help pay for nursing home care. About \$45 million involved beneficiaries who were not in nursing homes, but had other expenses, such as health insurance premiums. The \$350 million in nonrecurring expenses included such items as prescription costs and doctor visits.

These claimed medical expenses allowed beneficiaries to avoid pension reductions of \$762 million.⁴ In November 1990, the Omnibus Budget Reconciliation Act (P.L. 101-508) reduced VA pensions to \$90 a month for most veterans who receive Medicaid-covered nursing home care. Since these veterans should no longer report nursing home expenses, VA should expect \$107 million less in expenses to verify. However, verification will still be needed for the remaining \$655 million in medical expenses.

The Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b)) requires that internal control systems be designed to reasonably assure that program funds are safeguarded with appropriate checks and balances. The Secretary of Veterans Affairs is responsible for establishing internal controls that provide assurances that pension beneficiaries are paid their correct amounts. To do this for the pension program, however, VA must periodically verify claimed medical expenses.

Our review showed that VA does not systematically request documentation for claimed medical expenses, although VA pension beneficiaries are notified that they may be asked to provide documentation for these expenses. VA central and regional office officials told us, however, that they do not request such information because their philosophy is to rely on veterans' self-reporting unless there is contradictory or obviously incorrect information. According to one VA official, VA does not consider its reliance on self-reporting, combined with little documentation of claimed expenses, to be an internal control weakness reportable under the Federal Managers' Financial Integrity Act.

⁴The entire \$1.6 billion did not result in an equal increase in pension payments because the medical expenses allowed are limited to the claimed income in each case, not to exceed the applicable maximum annual pension rate.

In our view, because VA does not systematically verify these medical expenses, there is little incentive for voluntary compliance and no deterrent to veterans' overreporting these expenses. By comparison, IRS data showed that 43 percent of taxpayers who claimed medical expense deductions on their 1985 tax returns⁵ overreported their expenses, resulting in about 23 percent of claimed medical expenses being disallowed. In the face of such data and because of the large amount of moneys involved, sound financial practice and program management would, in our opinion, compel VA to establish a systematic approach for verifying pension beneficiaries' claimed medical expense deductions.

Two distinct groups of medical expenses should be verified. One is nursing home care, which, according to the American Health Care Association, generally averages \$27,000 per year. The second group consists of other expenses, such as doctor visits and prescription costs, and accounts for lesser amounts. In our view, VA should consider concentrating its efforts on high-dollar items for these groups in setting up verification procedures. Lesser attention could be given to lower-cost items.

Conclusion

VA does not have effective controls to validate hundreds of millions of dollars in medical expenses claimed by pension beneficiaries. Based on IRS experience, there is a reasonable expectation that a substantial number of such claims could be overstated. VA should establish procedures to systematically validate these expenses in order to deter overreporting and better insure the integrity of its pension program.

Recommendation to the Secretary of Veterans Affairs

We recommend that the Secretary establish procedures for systematically verifying the accuracy of medical expenses claimed by pension beneficiaries.

Agency Comments

In a June 24, 1991, letter VA agreed with our recommendation and said it would issue instructions requiring verification before allowing medical expenses for pension beneficiaries. VA acknowledged that it did not have a process to systematically verify medical expenses claimed by pension beneficiaries and recognized that this is a vulnerable area, with no real deterrent to veterans' overreporting these expenses. However, VA

⁵This is the most recent tax year for which such data are available.

believes that pension beneficiaries living in nursing homes may be less vulnerable to overreporting typical medical expenses than the general population reports for income tax purposes. VA's comments are presented in appendix III.

As arranged with your office, unless you publicly announce its contents earlier we plan no further distribution of this report until 30 days after its issue date. At that time we will send copies to the appropriate congressional committees; the Secretary of Veterans Affairs; the Director, Office of Management and Budget; and other interested parties.

If you or your staff have any questions concerning this report, please call me at (202) 275-5365. Other major contributors are listed in appendix IV.

Sincerely yours,



Gregory J. McDonald
Associate Director,
Income Security Issues

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Abbreviations

IRS	Internal Revenue Service
VA	Department of Veterans Affairs

Sampling Methodology

VA provided us with a 5-percent nationwide sample of "Improved Law" pension cases from its payment file, as of January 26, 1990. From this sample, we randomly selected 200 of 5,602 cases in which pension beneficiaries claimed recurring medical expenses. From the same 5-percent sample, we randomly selected 50 of 29,685 cases that did not have recurring medical expenses on the payment file. We included 183 of the 200 cases and 44 of the 50 cases in our review. VA did not provide sufficient documentation for our analysis of the other 23 cases. For all of our sample cases, VA regional offices sent us copies of eligibility verification reports that would have been used to support the data in VA's payment file.

Sampling Errors for Medical Expenses Claimed and Those That Need Verification

We estimated the medical expenses claimed and expenses that need verification for the population of pension beneficiaries. Because our estimates are based on a sample, each is subject to sampling error. The chances are 95 out of 100 that the actual number being estimated falls within the range of our estimates, plus or minus the sampling error. The sampling error for key data are shown in table II.1.

Table II.1: GAO Sampling Errors for Medical Expenses Claimed and Needing Verification

Dollars in millions		
Category	Estimate	Sampling error
Recurring medical expenses claimed by beneficiaries in nursing homes	\$1,207	\$148
Recurring medical expenses claimed by beneficiaries not in nursing homes	45	18
Nonrecurring medical expenses claimed by beneficiaries	350	128
Medical expenses that need verification after P.L. 101-508	655	125
Medical expenses that do not need verification after P.L. 101-508	107	41

Comments From the Department of Veterans Affairs



THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

JUN 24 1991

Mr. Gregory J. McDonald
Associate Director,
Income Security Issues
Human Resources Division
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. McDonald:

We appreciate the opportunity to comment on the General Accounting Office (GAO) draft report titled VETERANS BENEFITS: VA Needs to Verify Medical Expenses Claimed by Pension Beneficiaries (GAO/HRD-91-94). We acknowledge that VA does not have a process to systematically verify medical expenses claimed by pension beneficiaries. We also recognize that this is a vulnerable area because of the large amount of money involved coupled with the fact that the current system provides little incentive for voluntary compliance and no real deterrent to veterans' overreporting these expenses.

The GAO did not determine that there were any actual overpayments as a result of the vulnerabilities in this system. Furthermore, we do not believe GAO's example of taxpayers overreporting their medical expense deductions on their 1985 tax returns is necessarily representative of the potential magnitude of any overreporting of medical expenses by VA pension beneficiaries. For instance, over 96 percent of the \$1.2 billion in recurring medical expenses reported by VA pension beneficiaries was for nursing home care. Medical expenses for pension beneficiaries living in this type of an institutional setting may be considerably less vulnerable to overreporting than the typical medical expenses the general population reports for income tax purposes.

Nevertheless, we agree with GAO's recommendation and will issue instructions requiring verification before allowing medical expenses for pension beneficiaries.

Sincerely yours,

Handwritten signature of Edward J. Derwinski in black ink.
Edward J. Derwinski

EJD/vz

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